www.oilandgasinvestor.com/petrochemical-output-contributes-texas-overall-job-growth-841776#p=full

Petrochemical Output Contributes To Texas' Overall Job Growth

Reuters
Thursday, March 10, 2016 - 9:37am

Plunging energy prices robbed the Texas economy of an estimated 60,000 jobs last year, as oil and gas companies put the brakes on production and slashed investment, throwing engineers and geologists out of work.

But the forest of construction cranes sprouting around this petrochemical hub tell the flip side of the story, as some of the same forces that drove down those prices sparked tens of billions of dollars in investment in new processing plants to take advantage of cheap and plentiful supplies of oil and gas.

Exxon Mobil Corp. (NYSE: XOM) and Chevron Phillips Chemical Co., a joint venture of Chevron Corp. (NYSE: CVX) and Phillips 66, are building mammoth chemical crackers to process polyethylene from natural gas, and logistics firms have created millions of new square feet of warehouse space as they plan to ship the output to the global plastics industry.

Rising chemicals output has contributed to record traffic at the Port of Houston Authority, and officials say the trend is expected to continue. Throughout the Baytown area on the outskirts of Houston, an estimated $8 billion worth of projects are expected to be finished this year and another $22 billion completed in 2017.

This has all propped up employment in Texas at an otherwise difficult time. The positive impact on the overall U.S. economy from the chemicals industry that this illustrates is also one of the reasons the U.S. should avoid a downturn despite troubles elsewhere in the world. That in turn should create the conditions for the Federal Reserve to raise interest rates again this year.

"They are shedding jobs upstream. That's the nature of the business," said B.J. Simon, associate executive director of the Baytown-West Chambers County Economic Development Foundation. But "the opportunity to build these crackers just could not be passed up...access to cheap feedstocks changed the whole equation downstream."

Construction workers have jobs, new schools are being built to handle a growing local population, a new Kroger Marketplace store is being completed, and a partially vacant shopping mall is being overhauled.

Jobs: The Fed's North Star

The global economy might be sputtering, with weak demand one of the reasons that oil prices have cratered. But the U.S. keeps adding jobs at a rate consistent with the outlook from federal policymakers who expect there to be enough domestic spending to keep the economy expanding overall.

Texas "lost a lot of energy jobs," said Mine Yucel, senior vice president and director of research at the Federal Reserve Bank of Dallas, but the state "has been very resilient. I was surprised."

Across the oil patch, there's a similar pattern of positive trends offsetting bad news. Though low prices have crippled investment in exploration and cut drilling rigs, overall employment in Oklahoma continues to rise. Oklahoma has built large logistics and defense contracting industries.

In North Dakota, ground zero for the fracking boom, overall employment has dropped but the unemployment rate remains a super-low 2.7% compared with the national average of 4.9%. The number is held down by an expected adjustment: just as workers flocked to the state when vacancies were plentiful, the labor force has declined as the jobs disappeared and workers returned home.

These states represent a drop in the bucket compared to Texas's $1.6 trillion, 12.5 million-job economy, a size approaching that of Canada. Despite the oil downturn, the unemployment rate is only 4.7% as non-energy companies like fiber-optic manufacturer Applied Optoelectronics expand in the state.

In a rough year for the oil business, the state as a whole added 144,000 jobs in 2015, according to the Texas Workforce Commission, with strong gains across the trade and hospitality sectors, as well as professional services, health and education.

Rocky Start

The Federal Reserve meets next week to take stock of the U.S. economy after a rocky beginning to the year.

A rate hike is not expected at the March meeting, but the central bank's post-meeting statement and fresh economic projections from policymakers will provide important insight into how worried the Federal Reserve is about the combined impact of cheap oil and weak global demand on prospects for U.S. jobs, growth and investment.

In an organization that prizes consensus under Janet Yellen, the chair of the board of governors of the Federal Reserveclear cracks have emerged. Vice Chair Stanley Fischer's recent statement that inflation is "stirring," for example, clashes with the view of Lael Brainard, a member of the Federal Reserve's board of governors. Brainard said that there must be continued caution about how the rest of the world could inhibit the U.S.

The Federal Reserve raised rates in December for the first time in a decade and projections by its policymakers at the time showed they expected four hikes this year. However, many investors and analysts now feel the Federal Reserve might be stuck where it is for much of the rest of the year.

The job growth figures provide a counterweight to that view. The labor recovery has been going on for seven years now, and whenever hiring has slowed in one sector of the economy another has picked up the slack.

The early strength in commodity-based jobs that spread across the fracking fields of North Dakota and Oklahoma gave way over the past two years to a surge in construction, education and health-related positions. Even in government, where belt-tightening by local, state and federal agencies trimmed payrolls coming out of the recession, employment is growing again.

U.S. non-farm jobs growth has held at an average of 190,000 per month during the recovery. That's faster than anticipated and strong enough to both accommodate new entrants to the labor force and bring sidelined workers back into jobs.

There have been concerns that many of the jobs being created were at the low end of the wage spectrum in restaurants, hotels and retail stores. But more recent analysis of occupation and wage trends by Goldman Sachs showed that over the past two years in particular, job gains have been strongest in higher-paying positions.

In its most recent Beige Book release of anecdotal economic information, federal officials noted that former oilfield workers were shifting into jobs as auto mechanics, while construction and petrochemical companies had shortages in fields considered complementary to the skills of frontline oil and gas workers.

"It's easier to place a welder right now than someone with a four-year degree," said Jim Hanna, a vice president for human resources and industrial relations with Fluor, the engineering and construction giant working on the Chevron Phillips Chemical project in Baytown.

Fluor's workforce at that site is already up to 3,000, with 600 more to be hired over the summer.

Fewer BMWs

In the Houston metropolitan area, which compared to the rest of Texas has traditionally been most dependent on the energy sector, the oil crash did not prevent a net gain of 23,000 jobs last year. That was well short of the above-average 100,000 positions that the city had been adding in recent years as oil production surged, said Patrick Jankowski, vice president of research at the Greater Houston Partnership. But it is also more in line with the city's long-run average and likely is more sustainable.

While there could be some impact on wages from the loss of higher-paying positions for geologists and engineers, said Jankowski, some of the skilled construction trade and health jobs that will replace them also pay above average.

Hanna said it was typical for construction workers to put in 50-hour weeks or more, with annual wages running upwards of $100,000.

"I would not describe Houston's economy as strong, but I would never use the word recession," Jankowski said. "We will have a year or two of slower growth, rather than a boom...We will be selling fewer BMWs."